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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

CPI helps Macy funding

In a move geared in part toward protecting its realty holdings, Corporate Property Investors agreed to provide about 9% of a $188 million infusion of equity capital to R.H. Macy & Co. so the retailer can buy back junk bonds.

CPI purchased about $8.2 million of the Series III preferred stock for $31.81 per share. Subject to certain approvals, CPI also will buy about $13.1 million of the Series II preferred at the significantly higher price of $159.02 per share.

CPI runs nearly $3 billion in U.S. institutional real estate assets and owns 11 malls in which Macy has stores; the firm also holds $15 million in preferred Macy stock.

Hineman to quit Texas fund

Bruce Hineman, executive secretary of the $23 billion Teacher Retirement System of Texas for the past 10 years, will retire Aug. 31 to become the first executive director of the National Council on Teacher Retirement.

Proxy reform cautioned

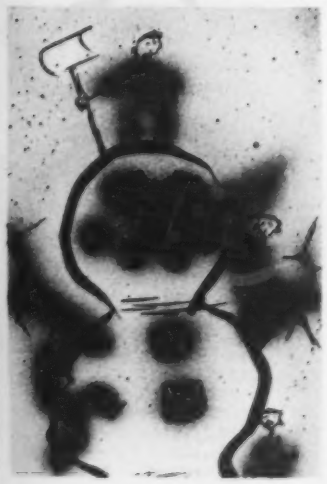
In a letter to the Securities and Exchange Commission, the Business Roundtable said the proxy reforms many institutional investors are seeking would lead to "back-room control" of proxy voting and undermine the already shaky confidence of individual investors in the market.

Emerging markets fund set

Rogers, Casey & Associates has developed a commingled group trust to invest in developing markets around the world.

The trust already has one investor, the $10 billion U S WEST Inc. pension fund. U S WEST played a role in structuring the fund.

INSIDE



Investors frosty to IPOs

Despite the inaugural hype and hoopla surrounding initial public offerings, during the 1980s investors' enthusiasm for the financing tool cooled as their investment values often melted away. In Commentary, page 14.

Photo by Michael Marrotte

Eastern Air Lines' unfunded pension liabilities is just one of the risks looming for the PBGC.

Recession imperils PBGC

Slump lifts odds of facing $7 billion in claims

By Joel Chernoff and Hillary Durgin

WASHINGTON — The slumping economy is increasing the chances the Pension Benefit Guaranty Corp. will be hit with claims of $7 billion to $8 billion, largely from the airline, steel and automotive industries.

While attention is focused on Continental Holdings Inc.'s Chapter 11 filing, which may saddle the PBGC with hundreds of millions of dollars in Eastern Air Lines Inc. pension liabilities, high oil prices and the worsening economy are starting to take their toll on highly cyclical, capital-intensive companies.

As more companies hit the skids, the PBGC may get stuck with their pension liabilities. Although agency officials decline to name them, the companies on the "watch list" are believed to include Pan Am Corp., CF&I Steel Corp. and Chrysler Corp.

James B. Lockhart III, the PBGC's executive director, said the agency expects to post a loss for fiscal 1990, which ended Sept. 30, as it likely will book losses for Eastern's Oct. 5 termination and other probable claims, as well as suffering negative investment returns.

"We've got these very big potential losses that are very hard to control," Mr. Lockhart said.

Less than two months after the PBGC thought it successfully had gotten Continental to agree to pay off the vast majority of Eastern's $700 million pension underfunding, the Houston-based airline holding company and subsidiaries filed Dec. 3 for protection from creditors, citing high fuel costs and heavy debt burdens.

It wasn't supposed to be that way. Under a novel Sept. 18 arrangement terminating seven Eastern pension plans, Eastern had agreed to pay $30 million to the PBGC and give it an unsecured claim of $50 million in Eastern's own Chapter 11 proceeding. Continental and its affiliates agreed to pay any of the remaining underfunding — for both

See **PBGC** *on page 26*

New rule increases flexibility

By Joel Chernoff

WASHINGTON — The Department of Labor has drafted a new rule that would give vastly more investment flexibility to individually directed defined contribution plans but impose a greater fiduciary burden on employers.

The new proposal, which radically overhauls a 1987 version, is expected to alleviate concerns over employers' ability to offer guaranteed investment contracts and employer stock investment options.

The rule would implement section 404(c) of the 1974 Employee Retirement Income Security Act, which defines how employers could escape fiduciary liability for investment decisions made by plan participants in individual account plans, such as many 401(k), money purchase and profit-sharing plans.

The new version, which was expected to be sent to the Office of Management and Budget for review last week, would abandon the more restrictive approach of the 1987 proposal that was withdrawn last summer.

The department will propose three broad principles that employers would have to follow to avoid fiduciary liability:

- Employers would have to provide "a broad range of investment alternatives" — including at least three diversified investment categories with different risk and return characteristics;
- participants must be able to switch their investments not less frequently than once every three months; and
- participants must have the opportunity to diversify investments generally and within in-

See **404(c)** *on page 30*

Unions begin look for overseas label

By Margaret Price

Although the issue is incendiary, more Taft-Hartley pension funds are exploring offshore investing in various forms — a trend that is expected to gain steam through the 1990s.

To date, few Taft-Hartley pension funds have invested outside the United States. The reasons for forgoing foreign markets centered on fears of exporting jobs and concerns about the safety of overseas investments.

But two main factors — recognition of the increasingly global nature of the world's economy, and appeals for foreign investments in such emotionally favored locales as Poland, home of Solidarity — are eroding unions' traditional barriers against foreign investing.

Increasingly, funds such as the Midwest Operating Engineers Pension Trust Fund and the Amalgamated Clothing and Textile Workers Union pension fund are considering investing beyond U.S. shores.

According to several sources, the Sheet Metal Workers' National Pension Fund, Washington,

See **Unions** *on page 30*

AP/Wideworld Photos

The need for capital in Poland, a sentimental favorite among unions, may lure some Taft-Hartley pension funds into the international investing arena.

NEWS DIGEST

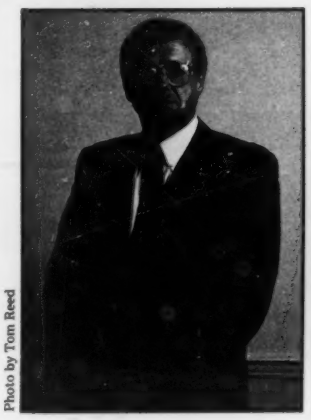


Photo by Tom Reed

Paul Quirk, executive director of the Massachusetts PRIM Board has severed his connections with a USX shareholders group led by Carl Icahn after the board voiced concerns about conflict of interests. Page 4.

SPECIAL REPORT: INVESTMENT OUTLOOK

***P&I*'s year-end roundtable** brought together five chief investment officers to discuss the investment outlook for various assets and markets as well as weigh the impact of developments worldwide. Page 3.

Dozens of investment managers also were surveyed on their opinions of what to expect in the coming year and how to invest accordingly. Page 3.

FINANCING

Monarch Capital and Equitable Life, two cash-strapped insurance companies, are pursuing different paths in their attempts to raise capital. Page 6.

GE Capital is among four financial companies that have teamed up in a venture seeking to raise $250 million for investment in the Asia-Pacific region. Page 2.

INTERNATIONAL

Taft-Hartley pension funds, once ardent isolationists when it came to investments, increasingly are exploring opportunities in the international arena. Page 1.

Wardley Direct Investment Management announced plans for a second fund for direct investments in unlisted Southeast Asian firms. Page 8.

REAL ESTATE

Goldman, Sachs finds selling the Philadelphia Stock Exchange building, the last holding in the firm's Institutional Assets commingled fund, a tough sell. Page 2.

Realty Capital Advisors sees commercial realty opportunities waiting to be reaped in the markets of the Midwest. Page 8.

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The *Pensions & Investments* staff wishes our readers a happy holiday season and healthy, prosperous 1991.

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Scoreboard questionnaires due

The deadline is approaching for *Pensions & Investments*' annual Money Manager Scoreboard. Questionnaires must be returned by Dec. 31 to be included in the rankings. If your investment management firm has not yet received a questionnaire, or if you have questions on it, contact Christine Philip, directory coordinator, at (312) 649-5217.

The Philadelphia Stock Exchange, InProp's only remaining property, has proved to be a tough sell for Goldman, Sachs & Co.

Change proposed

Goldman wants to bench itself

By Steve Hemmerick

Goldman, Sachs & Co., one of the nation's leading real estate financial service and brokerage firms, has suggested replacing itself as an investment manager of its languishing, almost defunct, real estate commingled fund.

The fund, Institutional Property Assets, or InProp, has only one remaining property — the Philadelphia Stock Exchange building. Yet, Goldman's difficulties in selling the building, as well as the fund's other holdings during the past four years, have some investors disgruntled.

Some investors have expressed surprise and annoyance at how long Goldman has struggled to sell the Philadelphia building — especially in view of the firm's worldwide reputation as a leading brokerage and investment banking house. Investors have been paying a 1.25% fee annually on invested assets.

Some critics also fear the Philadelphia building has been losing value as they wait for the sale.

Goldman officials declined to comment. According to pension fund executives, however, Goldman officials claim they have acted prudently. Because of eco-

See **Goldman** *on page 31*

City fund hit hard by losses

By Trudy Ring

MINNEAPOLIS — The $787 million Minneapolis Employees' Retirement Fund, under new administration, has taken write-downs on about $43 million in venture capital and real estate investments.

Fund officials called the investments "troubled" and part of an unusually high allocation to those asset classes.

The fund also has moved $180 million to index funds and commissioned asset allocation studies for its two separate portfolios, a $230 million one for active employees and a $557 million one for retirees.

At a Dec. 18 meeting, the fund's board approved writing down the market value of eight venture capital and real estate investments that James Hacking, executive director and chief investment officer, says are in trouble. These are all held in the active employees' portfolio.

The active employees' fund invested about $39 million in the enterprises, which include a fish-farming company, a motion picture company and commercial real estate. It wrote down the market value to about $12 million.

Mr. Hacking's predecessor, John Chenoweth, contended it is unfair to characterize the investments as troubled; they all have

See **Losses** *on page 31*

Investors to bankroll Asian firms

By Marcia Parker

Four major global financial service industry players have teamed up as the founding investors of an investment company that will take equity stakes in the best and brightest companies in the Asia-Pacific region. And they are looking for institution partners with deep pockets.

The founding investors of CEF New Asia Co., Hong Kong, who put up $100 million in capital, are GE Capital Corp., Canadian Imperial Bank of Commerce, Hong Kong's Cheung Kong (Holdings) Ltd. and Japan's Nikko Securities Co. Ltd. All of these institutions have had long-standing relationships in other investments in the past.

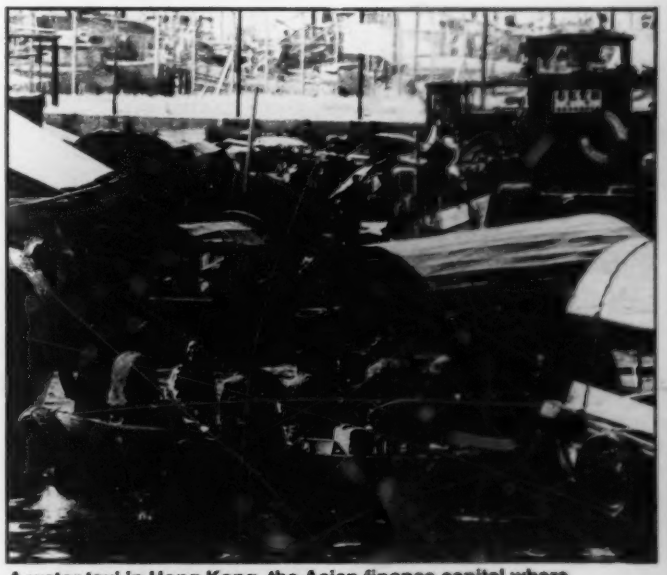
CEF New Asia is sponsored by CEF Holdings, a leading merchant banking group in Hong Kong. The investment company has just begun to try to raise $250 million from institutional investors in the United States and overseas.

More institutional investors are exploring corporate finance-oriented investments, including private equity capital funds targeting U.S. and European companies. While there are several such funds in the Asia-Pacific area and a smattering in other emerging markets, those limited partnerships are much smaller, often less than $50 million. If the CEF sponsors raise the $250 million they hope for, it will be the largest private equity fund in the Asia-Pacific region.

S. Steve Chu, managing director with CEF New Asia, said a large fund will allow the group to make sizable investments and take on bigger deals. Andrew Leach, the finance director, said the first deal, involving a Taiwan company, could be closed by year end.

The fund will purchase equity stakes in public and private companies with the objective of having the group provide a high degree of influence over management, financial structure and strategic direction. In most cases, the group will seek board representation. Investments will be made with a view to liquidation in two to five years.

CEF Holdings is owned equally by the Cheung Kong group and the Canadian Imperial Bank of Commerce and provides a broad range of financial services throughout the region. ■



A water taxi in Hong Kong, the Asian finance capital where investors hope to raise the largest Pacific Rim private equity fund.

IPOs a 'junk' investment of the 1980s

By Porter K. Wheeler

Initial public offerings always attract wide interest from investors, but the fact is these investments performed poorly in the 1980s. I recently studied the performance of more than 3,000 IPOs of corporate stock issued between 1980 and 1989. My finding: Buying stock in start-up companies was a losing investment about 75% of the time.

That's bad news for pension funds, money managers and other investors in IPOs. Like junk bonds, IPOs are another one of those securities where investors expect compensation of above-average returns for assuming above-average risk.

An investment manager might expect to enhance performance through judicious diversification of IPOs. With too few exceptions, all investors have gotten in the 1980s was the glamour of being in on the ground floor of a newly public company. Nearly half of the stocks of the companies that went public in the decade, in fact, aren't even traded today.

That's bad news, too, for the supply of capital for business. IPOs are an important source of equity capital in the economy and ought to play a significant role in the transfer of private savings to the entrepreneurial sector, financing new and emerging business activities. Sale of stock enables these new companies to expand and develop their technologies and markets without the financial constraints of excessive debt.

In recent years, however, IPOs have been slipping as a source of equity capital. Indeed, much of the IPO money raised since mid-1987 has gone into closed-end bond and equity funds. Excluding those closed-end funds, IPOs raised less equity capital than limited partnerships in recent years. In 1988 and 1989, limited partnerships raised $19 billion, while IPOs, excluding the closed-end funds, raised $9 billion.

What should be done if IPOs are to continue as an important source of financing? Some key findings of the study provide a perspective for framing a solution.

In the 1980s, there were 3,186 IPOs that met my working-company-oriented criteria (which exclude closed-end funds and some other types of offerings). These IPOs raised $55.1 billion.

Of the IPOs issued in the decade, only 58% were priced on a national market at the end of 1989 and only 33% had a market value above their issue price.

For those IPOs with current prices (58% of the total), an investment in each one from its issue to the end of 1989 would have produced a profit for 57% of the issues (33% of the total) and a loss in the other 43%.

The Standard & Poor's 500 Stock Index returns were higher than IPO returns on average for eight of the 10 years. Of the IPOs having a current price, 75% have underperformed the S&P 500 market average from the date of issue through 1989.

So what's happened to those IPOs that "disappeared," that is, those without any current pricing on a national market? Based on a sample of 103 of these IPOs and using data on regional-market pricing and other information, I found these issues, including the effect of known mergers and acquisitions, performed even worse than the IPOs nationally priced.

Only 14% of these unpriced IPOs showed gains from their issuance to their last known prices.

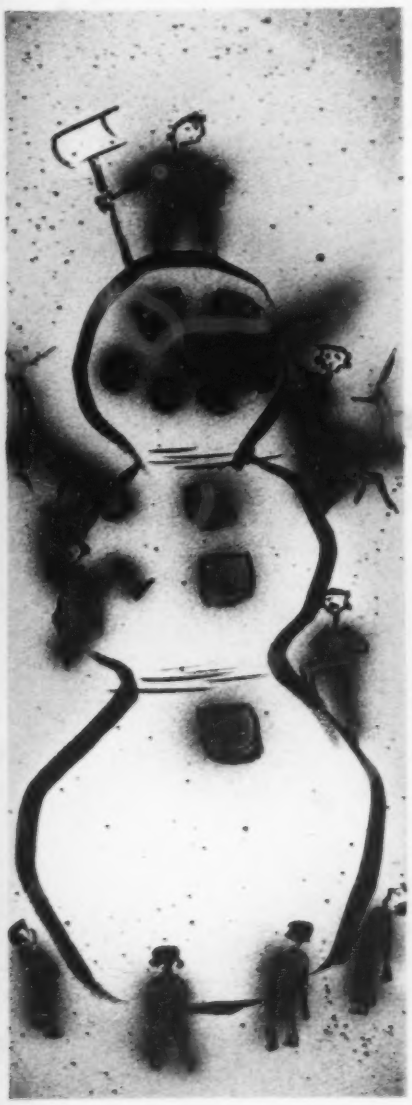
Investors, in short, haven't been rewarded for taking the risks inherent in these new and emerging businesses. In the past three years, fewer new offerings are forthcoming and less and less money is being raised. If IPOs are to continue as an important source of financing, investors will need a reasonable expectation of reward for their risk.

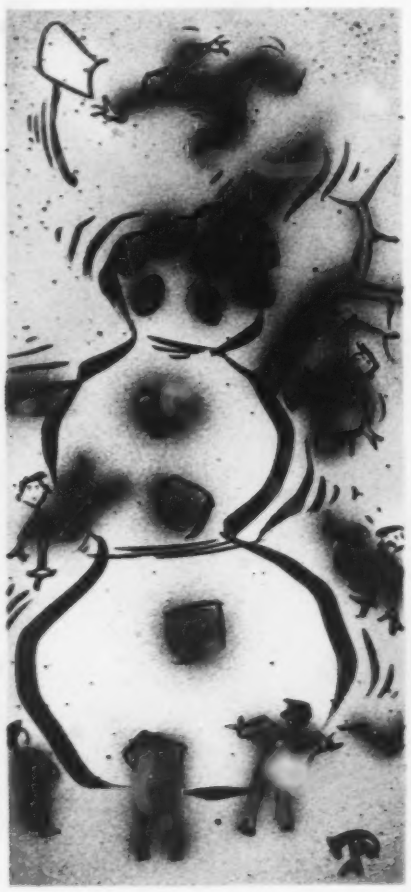
The quality of IPOs cannot be guaranteed, but more responsibility for these offerings must be shouldered by the selling group, the regulators and the issuer. Setting lower offering prices would be a good start. The selling group needs to perform adequate due diligence to assure itself that trends and timing within the new business are good for investors and not just good for marketing the issue.

The Securities and Exchange Commission needs to rethink its approach on new issues. A more intelligible prospectus would help, one better serving investors' interests rather than the legal protection of the issuers. The SEC should consider IPO trading restrictions, or even a no-trade period to reduce price volatility. It should require more disclosure of insiders' holdings and their selling plans, both current and prospective.

Of course, investors still have to do their own research and, based on the evidence, research more thoroughly. ■

Porter K. Wheeler is chief economist and senior vice president of The Jefferson Group, Washington.





Illustrations by Joe Fournier

Hooray for recession?!

By Roger Engemann

When corporate earnings fall, the stock market drops.

Recessions are always bad for the stock market.

Both statements appear to be logical deductions. They are, however, stock market myths, myths that could cause investors to miss out on major investment opportunities.

Take myth No. 1: Does the stock market decline when corporate earnings fall? More often than not, the opposite is the case. Historically, stocks have performed well during periods when corporate profits have fallen, as Table 1 demonstrates.

Since 1926, profits of the Standard & Poor's 500 Stock Index declined in 22 years. In only four of those years, the S&P 500 fell. In the other 18 years, the index was up significantly, averaging 24% a year.

Then there's the myth that recession always spells trouble for the stock market.

Table 2 shows that since 1926, the economy was in recession or depression for all or part of 26 years. In 11 of those years, four of which represent the Great Depression, the market was down. In the other 15 years, the market was up, sometimes dramatically, averaging more than 27% a year.

No one, of course, welcomes economic downturns. But it's wrong to assume they are always bad news for the stock market. The market can prosper — and has prospered — during periods of earnings decline and during recessions. ■

Roger Engemann is president of Roger Engemann & Associates Inc., Pasadena, Calif.

TABLE 1:

Year	Earnings change	S&P 500
1927	−10%	37.5%
1930	−46	−24.9
1931	−37	−43.3
1932	−36	−8.2
1938	−43	31.1
1942	−10	20.3
1943	−10	25.9
1944	−1	19.8
1951	−14	24.0
1952	−2	18.4
1956	−6	6.6
1957	−1	−10.9
1958	−14	43.4
1960	−4	0.5
1961	−2	26.9
1967	−4	24.0
1970	−11	4.0
1975	−11	37.2
1980	−1	32.4
1982	−18	21.4
1985	−12	32.2
1989	−4	31.5

Sources: Standard & Poor's Corp., New York; Ibbotson Associates Inc., Chicago; Bureau of Economic Analysis, Department of Commerce, Washington.

TABLE 2:

Year of recession	S&P 50
1926	11.6%
1927	37.5
1929	−8.4
1930	−24.9
1931	−43.3
1932	−8.2
1933	54.0
1937	−35.0
1938	31.1
1945	36.4
1948	5.5
1949	18.8
1953	−1.0
1954	52.6
1957	−10.9
1958	43.4
1960	0.5
1961	26.9
1969	−8.5
1970	4.0
1973	−14.7
1974	−26.5
1975	37.2
1980	32.4
1981	−4.9
1982	21.4